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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 001977

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: AMBASSADOR MEETS WITH CHEVRON

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

11. (C) SUMMARY: Chevron remains optimistic on Venezuela and believes that the Chavez administration has begun to realize that it cannot divorce Venezuela from the United States. Chinese oil company CNPC has approached Chevron about signing a cooperation agreement for projects in Venezuela. Chevron is also in talks with Citgo on possible areas of cooperation. Chevron is currently focused on its LNG project in Venezuela, which should come on-line in 2012 or 2013. The Colombia-Venezuela gas pipeline will be inaugurated on October 12. Chevron's margins in Venezuela, while reduced, remain highly profitable. END SUMMARY

CHEVRON'S TAKE ON VENEZUELA

12. (C) Chevron Latin America Upstream President Ali Moshiri paid a courtesy call on the Ambassador on October 4 to discuss Chevron's current activities and outlook for Venezuela. Moshiri told the Ambassador that Chevron is very optimistic about the Faja region. He added that he believes President Chavez cannot divorce Venezuela from the United States.

13. (C) Later in the conversation, Moshiri opined that Chavez has begun to realize that Venezuela's economy is intertwined with that of the United States and that he cannot separate them. Moshiri stated, however, that Chavez has changed a great deal over the last six years and that he is far less patient now. Moshiri believes the key question now is whether Chavez recognizes that the poor are not better off under his administration. He added the fundamentals of the Venezuelan economy are poor and that Venezuela needs productive capital. He illustrated his point by stating he told senior PDVSA officials that it was easy to sharply increase the operating budget for the former Ameriven strategic association but difficult to increase its

productive capacity.

¶4. (C) Moshiri stated he has told President Chavez that Venezuela's biggest challenge is a lack of human capital, both internally and externally. He said the BRV's main problem in the coming years will be maintaining Venezuela's production capacity at 2.4 million barrels per day. The BRV has the money and access to the right types of technology but Venezuela lacks human capital. According to Moshiri, another major challenge will be to convince U.S. service companies to return to Venezuela and begin investing in the oil sector. He stated it will take the BRV another two years "before it sees the light". (NOTE: We believe that Moshiri was referring to smaller service companies, particularly drilling rig companies. Major U.S. service companies continue to operate in Venezuela. END NOTE)

THE CHINESE

¶5. (C) Moshiri told the Ambassador that he does not believe the Chinese pose a significant threat in the Venezuelan oil sector. He stated cultural differences make it very difficult for the Chinese and Venezuelans to work together. In addition, he said the BRV has begun to realize that Chinese investment does not produce much in the way of Venezuelan jobs. He joked that the Chinese import all of their workers and even the workers' noodles.

¶6. (C) According to Moshiri, the Chinese oil company CNPC has approached Chevron about signing a cooperation agreement for projects in Venezuela. CNPC is eager to work with Chevron on human resources issues, social responsibility

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projects, and technology. The Chinese have even hinted that they may be willing to give Chevron a stake in some of their Venezuelan projects. Moshiri believes PDVSA may have encouraged CNPC to reach out to Chevron.

CITGO

¶7. (C) Moshiri also told the Ambassador that Chevron has been approached by Citgo to discuss ways in which Chevron can help Citgo run more efficiently and expand its operations. He stated Citgo has been very profitable for the BRV, and added he believes the BRV is no longer interested in selling Citgo. Moshiri stated Citgo management wants to expand their business but the BRV is not willing to invest additional funds in the company. Moshiri added that Chevron is just talking to Citgo at the moment and it is not clear that anything will result from the discussions.

CHEVRON'S PRIORITIES IN VENEZUELA

¶8. (C) Moshiri stated Chevron's top priority in Venezuela is the development of its LNG project in Plataforma Deltana. Chevron will declare commerciality on the project at the end of the year. Chevron hopes to have its first LNG from the project by 2012 or 2013. Moshiri stated PDVSA has offered to provide some gas from the Mariscal Sucre project for Chevron's LNG facility.

¶9. (C) President Chavez will inaugurate the Colombia-Venezuela gas pipeline on October 12. The 253 kilometer pipeline will transport gas from Chevron's fields in Colombia to the Maracaibo area, which is suffering from a gas deficit. Chevron constructed the pipeline but PDVSA provided all of its funding. Moshiri stated President Chavez is planning a major ceremony for the inauguration and plans on inviting several Latin American presidents.

¶10. (C) When asked about the Faja, Moshiri stated that the companies that are currently carrying out certification

studies in the Faja will all require partners in order to develop extra heavy crude blocks. He stated Chevron and Total are the only companies currently operating in Venezuela that have the necessary expertise to serve as partners. Moshiri believes that the Russian oil company Lukoil will eventually ask Chevron to partner with it. The Chinese, Petrobras, and Repsol have also expressed interest in partnering with Chevron. Moshiri closed the meeting by again noting that Chevron is optimistic about its future in Venezuela. He noted that Chevron's margin per barrel in Venezuela before the recent changes in fiscal policies and equity structures was USD 24. Even after the changes, Chevron's margin was still USD 13 per barrel, over twice the margin of its operations in Argentina. Moshiri explained that the high margins in Venezuela stem from the fact that it is not necessary to explore for crude in the Faja.

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